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The new IT agenda

How to define and deliver a capabilities-driven approach

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Executive summary

As they seek to develop a strategic role in today's organizations, chief information officers and chief technology officers have a choice for their departments: to try to fulfill all the demands placed on them while spending less and less money, or to focus on being "fit for purpose" — providing the capabilities their company needs most, in line with its most essential ways of creating value.

Different organizations create value in different ways, and the information technology (IT) organization contributes to all of them. But few IT functions have realized their potential as an enabler and developer of the distinctive capabilities that give companies their essential advantage. This Perspective lays out a three-step process that can help IT leaders become critical partners to the rest of the enterprise in building capabilities, while making the most of the information and communications technology (ICT) products and services available to them.

First, analyze the value that the function currently provides to the enterprise. (There are six potential value drivers, ranging from helping to keep costs in line to facilitating innovation.)

Second, build a richer understanding of the organization's strategic imperatives — its value proposition in the market if it is a business, and its core mission if it is a government agency or a not-for-profit organization — and the capabilities it needs to fulfill this proposition.

Third, develop a functional agenda that can work with your existing strengths to enable the most important capabilities. There are five archetypal agendas to consider: Value Player, Operator, Technology Leader, Service Broker, and Capability Builder.

The challenges ahead

Every information technology (IT) department in every organization — whether in the private sector, the public sector, or the not-for-profit world — struggles to develop a sustainable strategic role. But though most chief executives agree that a sophisticated, strategically oriented IT function is a desirable goal, many factors and forces make it difficult to accomplish.

For example, the global economic downturn has significantly limited the level of investment available to IT departments. Other constraints include the aging workforce and insufficiencies in science and technological education, which hinder the ability of IT departments to find and keep the talent they need. Consolidation, in the form of mergers and acquisitions, has added complexity and brought together ill-matched systems. Changing consumer demand has opened the door to new digital business models (such as those involving mobile and personal devices, social media, and automatic location tracking), which challenge conventional IT practices. More stringent regulations, along with the drive for “big data” and related customer insights, are leading companies and governments to demand better systems for tracking and analyzing massive amounts of information.

Meanwhile, the information and communications technology (ICT) industry that supplies business technology is going through massive change. The growth of cloud computing and the acceptance of “software as a service” have sharply reduced the costs of many computing functions, and added a new array of ICT commodities that companies can draw upon. Advances in robotics and digital fabrication are beginning to have an effect on prototyping and supply chain practices. And rapid consolidation among vendors across the industry landscape is transforming how IT departments source and manage the services they are responsible for.

All these changes are taking place while the demands placed on IT by the organization increase in scale and number, making it increasingly difficult for IT departments to meet all the internal requests that come their way. IT leaders are expected to simultaneously improve the quality of the services they provide, keep up with technological advances, reduce errors and mishaps, simplify the user experience, protect the company against cybersecurity threats, embrace openness and social media, realize the benefits of digitization, and maximize the value they get from their many vendors. They must do all this while spending less and less money. The landscape of services they are expected to provide is increasingly complex and expensive, even as the overall skill level of the IT talent pool declines.

One consequence of these changes is a shifting role in the types of people hired in IT departments, and the tasks they are asked to do. In the near future, IT managers and employees in most large businesses and government agencies will work on activities such as predictive analytics — setting up systems that capture information in real time and using these systems to enable better decisions or to program automated customer-tailored responses. IT staffers who specialize in more familiar tasks (for example, coding or providing support) will end up moving to dedicated outsourcing organizations, such as ICT services providers, that have the scale to offer those services more effectively and inexpensively.

The most effective way for an IT department to navigate these trends and imperatives is to focus on being "fit for purpose" — setting an agenda that provides the company with the capabilities it needs the most, while preparing for the changes expected in the future. If you are a chief information officer (CIO) or chief technology officer (CTO), you will be expected to take a leadership role in setting and implementing this agenda. In other words, you will be making the same kinds of disciplined choices for your department that the CEO and top leadership team are making about the strategic direction of the company.

Thus, for example, you may find yourself unilaterally proposing reductions in some IT services, if those costs can be reapplied in ways that make the company stronger overall. You may also be drawn to suggest ways that IT can fill the gap between what the company does well today and what it needs to do well in the near future. Most of all, however, you will be called upon to transform your function: to choose the role it will play in your company or organization, and to execute that choice.

The vicious cycle of incoherence

The problem with much of the advice on ICT strategy is that it does not take into account the particular circumstances of a particular company. Therefore, it leads to a merely transitory advantage. For example, many have suggested that companies focus their ICT strategy on serving customers. Others say that IT should outsource as much as possible to keep costs low, or that IT should be "strategic," meaning oriented toward long-term projects tied to corporate priorities. All of these tactics will work well — for a while — because they help to focus the IT function. But as product lines shift, technologies evolve, customers migrate, business processes digitize, and strategies change, the organization starts making demands for new services and new technologies, and the focus dissipates.

Undermining any talk of setting priorities is a vicious cycle of incoherence. Even as the IT department tries to keep focused on long-term strategy, it must try to be all things to all people in the short term. This is generally not feasible in most large companies, because too many parts of the enterprise fail to fit together effectively. Nor is it possible to bring them together with changes in IT alone. The inevitable result: declines in performance related to information technology, more widespread dissatisfaction with ICT services, and thus even more pressure to perform well — to be all things to all people in the short term.

When an IT function is caught in this vicious cycle, the symptoms are familiar. The organization of the department is extremely complicated, and its reporting lines and flow of information are unclear. Ongoing debates about which technologies to invest in lead to consensus decisions: two or more competing systems are installed at the same time, even if they work together poorly. Relationships with suppliers, vendors, and external contractors also come into conflict with one another, adding to confusion and leading to a proliferation of transaction-based arrangements with minimal value for the money. Shadow IT projects (set up by business units to "work around" the problems of the corporate system) proliferate; in other words, the technology staff within business units, not linked to the central IT organization, keeps growing. Senior executives struggle to understand the focus and positioning of technology within the organization. The IT department ends up operating on a catch-as-catch-can basis, grappling to meet the demand from business units without being able to set clear expectations of what it can reasonably accomplish.

Getting out of this dilemma will require an analysis of the strategic and operational needs of the greater organization and the ways in which the IT function can become fit for purpose. There are three steps in this process: analyze the ways in which ICT currently provides value, understand the strategic value proposition of the enterprise (and how ICT fits), and determine the right role and agenda for the IT function going forward. By framing this sequence of choices, ICT leaders can make a robust contribution to the enterprise's strategy — and escape the vicious cycle of incoherence.

Value drivers of IT effectiveness

Information and communications technology provides value to an organization in at least six different ways, each of which carries with it specific expectations for how ICT will operate (*see Exhibit 1, next page*).

These value drivers remain consistent priorities for IT functions, no matter what changes take place in technology, business, regulation, competition, and global markets. At the same time, IT leaders have discovered that no single organization can possibly excel at all six of these drivers. Each requires its own form of investment and competence.

Thus, in many organizations, these value drivers are locked in some degree of tension with one another. Attention to cost effectiveness is seen as a curb on quality; eager responsiveness may seem to undermine the independent thinking needed for innovation. Each is worthy in itself, but together they add up to incoherence — for the IT function, and for the company as a whole.

Therefore, the first step in your analysis should be to assess your current situation. Which of these value drivers represent strengths in your organization? In which of them do you have weaknesses or gaps? Which are in conflict with each other? Where do you feel the greatest demand from the larger organization, and how well are you meeting that demand? As part of this analysis, some companies have literally ranked the value drivers according to which are demanded by the larger organization (or parts of it), and according to how well the IT department can deliver.

Exhibit 1
ICT value drivers: Six ways to create value for an enterprise through improved deployment of technology

Value driver	Typical commitments	Example
1. Cost effectiveness	– Maintain ICT costs below those of competitors and industry benchmarks – Consistently improve cost metrics – Prioritize investments to optimize effectiveness, focused toward the most important enterprise capabilities – Pursue a *Fit for Growth** agenda	A large discount retail chain maintains a single simple, consistent IT system for all operations, tracking expenses relentlessly and increasing investment only in those few areas that affect its critical capabilities (such as optimal customer service).
2. Quality	– Reliably meet or exceed established levels of business service – Ensure compliance with regulatory, security, privacy, and risk policies	A multinational industrial manufacturer depends on highly tuned robotics and logistics applications that can be provided only through intensive, world-class operational excellence.
3. Responsiveness	– Maintain effective service delivery with a high level of transparency and engagement with internal clients – Anticipate and prepare for changes in internal demand, through intimacy with other parts of the enterprise – Continually broaden and deepen knowledge of business needs and priorities	A financial-services company, adjusting itself to more effectively meet the needs of its external clients, must shift its design and operations. This in turn requires the ability to respond rapidly and effectively to internal demand, and to anticipate demand when necessary. It also requires intensive collaboration between the business leaders and the IT department to make sure the back office can do everything the front office needs.
4. Sourcing	– Establish and manage effective partnerships and contractual arrangements with technology and service providers – Leverage these partnerships to extend capabilities and support the delivery of business needs	A global automotive company has innovation and manufacturing sites on several continents, and requires expert ICT services in all those locations, sourced from a variety of providers.
5. Agility	– Maintain the ability to change services rapidly—scaling them up or down, executing new initiatives, integrating new acquisitions, etc.	A consumer products company is continually on the prowl for ways to smooth its supply chain and provide better customer service and social media engagement. The IT department turns on a dime, so that employees continually have new tools and opportunities to learn how to use them.
6. Innovation	– Develop new business products and services that relate to the organization's purpose – Be an early adopter of innovative technologies that support business agendas	A high-end retailer creates its own distinctive combination of online ambiance and retail store design, symbolized by its roving salespeople with mobile checkout devices. People continually return to its stores to see what new type of computer-based service they have recently introduced.

* *Fit for Growth* is a registered service mark of PwC Strategy& Inc. in the United States.

Source: Strategy&

Enterprise capabilities

The value drivers show what you're doing now. But they do not define your primary role, which is to help create and sustain the capabilities that the enterprise needs most, now and in the future. This role is not focused on ICT-related issues — providing technical services, keeping up with developments such as cloud computing, fixing problems in business systems, or making sourcing decisions. Rather, it is focused on contributing to the enterprise's strategy. Thus, as your second step, you must build a richer understanding of your organization's strategic imperatives — its value proposition in the market if it is a business, and its core mission if it is a government agency or a not-for-profit organization.

There are three types of capabilities that the leaders of a successful enterprise must consciously think about — and that IT departments must be able to support, to a greater or lesser degree:

1. *Differentiating capabilities:* These are the primary capabilities that set a business apart from its rivals. They are the source of its competitive advantage. In successful companies, these differentiating capabilities are nearly always complex and sophisticated enough that they transcend functional boundaries; a company might have a remarkable capability in designing products that delight consumers, incorporating R&D, design, customer insight, media development, ICT, and more. Typically, there are three to six of these differentiating capabilities, all reinforcing one another. They require considerable attention and investment to ensure that the company maintains its distinctive position. Well-known examples include Frito-Lay's direct store delivery system, Apple's user interface prowess, and Inditex/Zara's ability to mix classic and fashion-forward garments at low prices through supply chain management.

2. *Competitive necessities:* These are the secondary capabilities that all companies in a specific industry must have to compete successfully. Examples might include logistics, strategic sourcing, or financial-services-specific back-office processes.

3. *Basic business capabilities:* These are the competencies every company needs to "keep the lights on" and maintain operations, including tax reporting, real estate and facilities maintenance, and energy management.

One company that has organized its priorities this way is Aetna Inc., a US$34 billion diversified healthcare-benefits company that was recently profiled in *strategy+business*.[2] "With the enactment of healthcare reform, 40 million Americans are theoretically going to be entering the market for health insurance," says Meg McCarthy, executive vice president of innovation, technology, and service operations. "There will be significant growth in the cost-competitive individual business. Our aim is to be the global leader in empowering people to lead healthier lives. That's our strategy." Aetna has prioritized investment in several areas — including information, health information exchange, and clinical decision support — that contribute to these consumer-oriented capabilities. For other aspects of IT, such as back-office claims processing, the company seeks the lowest possible unit cost and the greatest efficiencies. "It's like a can of Legos," says McCarthy. "We need to put the pieces together in new and different ways to grow our business."

Each enterprise has its own unique mix of capabilities, but all enterprises have one thing in common: The IT organization plays a significant role in all three types. Most important, IT contributes to — or even co-creates — the company's differentiating capabilities, working with the other functions that are responsible for them, developing solutions, and leading the way across the gap between where the organization is now and where it needs to be. Supply chain logistics, for example, is a key differentiating capability at Avon Products, and its IT department played a critical role in making the company truly world-class.

IT also helps provide both the competitive necessities and basic business capabilities at the appropriate level of investment, which is usually less than world-class because these capabilities need only be sufficient to get the job done. Every financial-services institution needs the ability to process transactions quickly and accurately, but being able to do so is not a differentiating capability — it is a competitive necessity. So among the tasks of a bank's IT department is the capability to ensure the efficiency and effectiveness of transaction processing — without putting more money and time into the effort than necessary. IT then downgrades or eliminates any activities that do not contribute directly to the first two priorities: differentiating capabilities and competitive necessities.

Every IT department must support its organization's priorities. Therefore, your next analytical task is to identify the three types of capabilities at your company or agency. In some cases, they will be clear: The enterprise will have a well-defined strategy, and everyone will agree about the differentiating capabilities that set this organization apart from others. In other cases, it may be necessary to talk with your peers, and with the leading executives of the enterprise. What is the basic value proposition that this organization offers its customers? What capabilities are needed to deliver that value proposition? Which capabilities need to be just "good enough" to comply with industry standards, but not world-class? Which investments in capabilities — particularly in IT — bear little relationship to the strategic needs of the enterprise and should be downgraded or cut?

In some companies, where there are crosscurrents and different views of enterprise strategy, you may not be able to get a definitive answer. In all companies, however, you should be able to build a working hypothesis of the capabilities (including IT) that help your company stand apart, the competitive necessities that it needs to stay current in its industry, and the basic business capabilities that it requires to survive. Any activity that doesn't fall into one of these three categories will sooner or later be cut, no matter how popular it has been historically, because the organization can't afford to keep it.

An agenda to become fit for purpose

As companies become more focused, and corporate leaders discover the importance of distinguishing themselves through what they can do better than anybody else, IT leaders will be called upon to help define and deliver the differentiating capabilities that the company needs. Each of these capabilities will require technological prowess tailored to it. The IT leader will also need to dispassionately channel investment where it is needed, to move it away from where it is not needed, and, for some projects, to raise the question of whether investment is needed at all.

To develop an internally consistent approach to managing the function, it is helpful to think of the strategic role that the function plays as an archetype: a well-established identity for your department, which guides the agenda for the function, influences the way it operates within the enterprise, and defines and clearly communicates the contribution that it makes to the strategy. Build on your work in the first two steps: Look for an agenda that takes advantage of the strengths you found in Step One and that can deliver the capabilities the enterprise needs (as you determined in Step Two).

There are five archetypal agendas to consider: Value Player, Operator, Technology Leader, Service Broker, and Capability Builder. Each is named for the way it resolves the tensions that exist among the ICT value drivers (*see Exhibit 2, page 15*).

- *Value Player:* Focused on cost and efficiency, this IT department has mastered standardization and basic functionality, rolling out each service as broadly as possible to maximize the return on investment while greatly limiting the number of products, variations, and services. If your company is an overall value player, distinguishing itself through low prices, this IT agenda is usually a prerequisite for success.

- *Operator:* This IT department focuses on providing high-quality service with low risk by emphasizing execution and operational excellence. It is valued in companies that depend on technology to avoid mishaps and damages, or to maintain high volumes or extra reliability. If you pursue this agenda, you may need to resist the temptation to overinvest in competitive necessities and basic business capabilities; world-class technological excellence may not be justified, especially if it comes at extra cost.

- *Technology Leader:* Drawing on advanced technological prowess, this IT department provides leading-edge support for innovative products and services, enabling the company to gain a first-mover advantage. This type of agenda might help your company cross the "capabilities gap" most effectively to become a truly differentiated enterprise.

- *Service Broker:* To provide scale and consistency (typically to global companies with multiple outsourced providers), this IT department integrates services from external vendors into an end-to-end solution that can be delivered to customers. This agenda can enable your IT function to work closely with other internal functions, and with outside groups, to develop a distinctive set of capabilities.

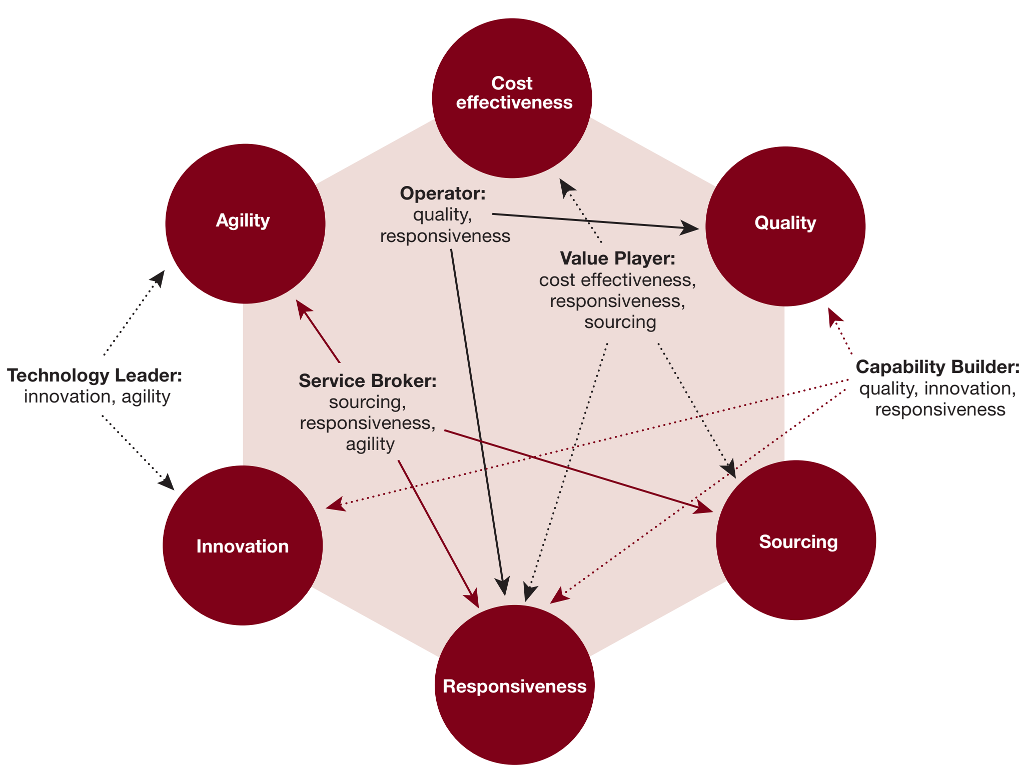
- *Capability Builder:* This IT department is closely involved in the design of new practices and processes that enable a larger corporate strategy. The agenda goes beyond a purely functional shared-service role; you become, in effect, a strategic partner to the CEO and top leadership team, helping to determine what differentiating capabilities to invest in.

All five of these roles are viable (unlike some other roles, like a pure service provider, which are likely to be outsourced). Your choice of role should depend on the enterprise strategy of your company. For instance, the IT departments at two airlines might take on completely different roles. A long-haul airline that sets itself up as a premium experience provider might want to invest in having a Technology Leader IT function. That would enable it to have highly customized technological platforms: a customer relationship management (CRM) system that seeks to link customers to the airline for life; a way to rapidly prototype new cabin designs and logistic innovations; and a rich online presence with dynamic content. All of this would combine to distinguish this airline in service and sophistication, with prices just low enough to convince premium customers (who are tracked through CRM and continually given offers tailored to them) that they are getting bargains at times. Another airline, providing no-frills service at low prices, would need a Value Player IT function. This function would outsource most operational and back-office activities; impose strict controls over demand management; set up basic, low-function personal computers for its ticketing and check-in staff; and drive lower costs through a self-service website.

Your IT function does not have to take on one of these roles exclusively. The roles can be combined to craft an agenda for your IT function that is closely matched to the capabilities system your parent company has established. A global discount hotel chain, for example, might develop an IT function that combines the Value Player and Service Broker archetypes. If your company's overall strategy changes to meet shifting external conditions, your IT organization's basic agenda will probably change along with it.

By focusing on an IT agenda, CIOs and CTOs can exercise choice. They can become fit for purpose: providing the capabilities the company needs most, while still maintaining the other attributes that enable the entire enterprise to create value. No IT function can provide everything that a business might demand, but functional leaders can determine the attributes that matter most. They can then use an archetypal role to provide the services that are needed most, in a transparent and effective way that everyone understands and that makes a strategic contribution.

Exhibit 2
IT archetypes mapped against the ICT value-driver landscape



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Endnotes

[1] *Fit for Growth* is a concept developed by Strategy& to help companies in a variety of industries become more strategically and organizationally effective while focusing expenses more coherently. For more information on this service offering, see www.strategyand.pwc.com/global/home/what-we-think/fitforgrowth.

[2] "Is Your Company Fit for Growth?" by Deniz Caglar, Jaya Pandrangi, and John Plansky, *strategy+business*, Summer 2012.

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